

U.S. Small Business Administration

409 Third Street, SW
Washington, DC 20416

Announces SBA Loan Sale #2



Bid Date: August 1, 2000

Aggregate Unpaid

Principal Balance: \$1 billion (approximate)

Number of Loans: 25,000 (approximate)

Sale #2 Transaction Financial Advisors



Sale #2 Due Diligence Contractor



Asset Sales Program Financial Advisor



Whitestone Capital Group, Inc.

April 2000

INTRODUCTION

The U.S. Small Business Administration ("SBA") is pleased to announce SBA Loan Sale #2 ("Sale #2") in connection with its on-going Asset Sales Program. The Asset Sales Program was launched in 1999 to sell SBA loans in an open and competitive manner while maintaining the policies central to the Agency's mission. To learn more about the Asset Sales Program and its mission, please visit the following SBA websites:

www.sba.gov/assets/sales.html

www.sba.gov/assets/ovamsn.html

PRELIMINARY SALES SCHEDULE

Bidder Information Package available	May 26
Bidders' Conferences	May 31 – June 2
Due diligence site opens	June 2
Due diligence site closes	July 28
Bid date	August 1
Bid award announcement	August 3
Closings	August 15 – 31
Servicing transfer date	September 29

PORTFOLIO AND SBA PROGRAM DESCRIPTIONS

The Sale #2 portfolio includes performing, sub-performing and non-performing loans originated under the following SBA programs: (i) the 7(a) Loan Guaranty Program, (ii) the 7(a) Direct Loan Program, (iii) the Development Company Loan Programs (also referred to as Section 502, 503 and 504) and (iv) the Disaster Assistance Program.

Under the 7(a) Loan Guaranty Program, SBA-approved private sector lenders originate loans to small businesses for various business purposes, and the SBA guarantees a portion of the loan against losses from default. The guaranty percentage generally ranges from 75% to 80% depending on the loan amount with a maximum guaranty amount of \$750,000. For all of the 7(a) Loan Guaranty Program loans included in Sale #2, the SBA has paid the originating lender the guaranty percentage and therefore *no further SBA guaranty is available to the purchasers of these loans*. The 7(a) Loan Guaranty Program loans in Sale #2 include those that are currently serviced by the SBA or by the participating lender.

Under the 7(a) Direct Loan Program, the SBA originated loans directly to small businesses until 1995. These loans typically have smaller balances than the 7(a) Loan Guaranty Program loans, generally less than \$150,000. All of these loans are serviced by the SBA. *There is no SBA guaranty available to the purchasers of these loans.*

The Development Company Loan Programs provide, in conjunction with a private sector loan, long-term, fixed-rate financing to facilitate acquisition of major fixed assets, such as land and buildings. A typical development company is a non-profit corporation created to assist the economic development of its community by originating these loans and engaging in other development activities. Generally, a project is financed as follows: 50% of the asset cost is provided by private sector lender financing in a first lien position, 40% by an additional loan in a second lien position funded by an SBA-guaranteed debenture (the Development Company loan) and 10% equity injected by the small business borrower. The maximum SBA debenture is \$1 million. The SBA has paid its guaranty of each debenture on all the Development Company loans included in Sale #2 and has converted the amount paid on each debenture into a note receivable, which is an obligation of the borrower. *There is no further SBA guaranty available to the purchasers of these loans.*

New to the Asset Sales Program are loans originated directly by the SBA under its Disaster Assistance Program. The Disaster Assistance Program is SBA's largest direct loan program and serves both individuals and small businesses. Disaster assistance loans provide capital to homeowners, renters, businesses and non-profit organizations to rebuild and/or recover in the wake of physical disasters. Two types of disaster assistance loans are included in Sale #2: home and business. The home or residential loans are available to homeowners and renters whose properties have sustained certain physical damage. Business loans are available to small businesses and non-profit organizations, and are made for physical damage and/or economic injury. Economic injury disaster assistance loans provide necessary working capital to small businesses until normal operations can resume after a physical disaster. Economic injury disaster

assistance loans may be made to borrowers whose small businesses do not suffer physical damage. All of the Sale #2 disaster assistance loans will be at least two (2) years old as of the bid date. *There is no SBA guaranty available to the purchasers of these loans.*

To obtain additional information concerning the SBA Loan Programs described above, please visit the following SBA websites:

www.sba.gov/financing/fr7aloan.html

www.sba.gov/financing/frcdc504.html

www.sba.gov/disaster/

PORTFOLIO INFORMATION

The Sale #2 portfolio includes secured and unsecured loans. Collateral for the secured loans includes business assets, residential or commercial real estate, machinery and equipment. All of the loans in Sale #2 were made with recourse to the borrower and a significant number of the loans are supported by personal,

third party or corporate guaranties. All of the loans in Sale #2 will be sold servicing released.

BIDDING FEATURES

In order to maximize the return to the Government and attract the greatest amount of interest from all prospective bidders, the SBA will offer the loans in a series of pools comprised of various combinations of the following criteria: performance status, collateral type, loan type, lien position, loan-to-value ratio, and geography. Also, there will be some small pools for which only individual loan pool bids will be accepted. These pools will be evaluated and awarded individually.

BIDDERS' CONFERENCES

Three Bidders' Conferences have been scheduled. Attendees may submit questions that will be answered at the conference. Questions and answers addressed at the Bidders' Conference will be included in the Bidder Information Package supplements. Representatives

SALE #2 PORTFOLIO SUMMARY

(as of March 31, 2000)

numbers are approximate and subject to change

Aggregate Unpaid Principal Balance	\$1 billion
Number of Loans	25,000
Remaining Weighted Average Maturity	205 months
Weighted Average Coupon	4.86%

SBA Loan Program	Disaster Assistance Loans Business	Home	7(a) Loans	Development Company Loans
Number of Loans	10,250	13,000	1,650	100
Aggregate Unpaid Principal Balance	\$620,000,000	\$220,000,000	\$140,000,000	\$20,000,000
Weighted Average Coupon	4.1%	4.0%	9.1%	7.7%
Remaining Weighted Average Maturity	217 months	238 months	106 months	143 months

Geographic Distribution

California	38%	15%	14%	13%
Florida	10%	4%	5%	8%
Texas	5%	1%	11%	9%
Hawaii	4%	8%	–	–
Puerto Rico	3%	9%	–	4%
Guam	3%	31%	–	–
Virgin Islands	3%	18%	–	–
New York	–	–	10%	–

from the SBA, Merrill Lynch, Cushman & Wakefield, Whitestone Capital Group, Inc. and METEC Asset Management, LC are expected to participate in the conferences.

BIDDERS' CONFERENCE SCHEDULE

Wednesday, May 31 9am – 12pm	Marriott World Trade Center New York, NY
Thursday, June 1 9am – 12pm	Westin Galleria Dallas, TX
Friday, June 2 9am – 12pm	Westin St. Francis San Francisco, CA

To make a reservation to attend a conference, please call the SBA Loan Sale Center at Merrill Lynch at (888) 590-6872. Reservations will be accepted until Wednesday, May 24.

WEBCAST

A webcast is scheduled and should be available via the Internet at www.sba.gov/assets/sale2.html beginning on or about June 12, 2000. The webcast will provide general information regarding the SBA Assets Sales Program, the Sale #2 loan portfolio, due diligence options and bid procedures. The webcast will provide prospective bidders with another means of obtaining sale information and an opportunity to submit questions by e-mail.

DUE DILIGENCE

Prospective bidders have a number of due diligence options for performing due diligence. All Bidder Information Packages will include Loan Information CD-ROMs. Prospective bidders will also be able to access the due diligence database electronically or by visiting the due diligence facility in Washington, DC from June 2 to July 28, 2000. A \$500 non-refundable due diligence fee is required for admission to the due diligence facility, for electronic access to the due diligence database and/or to purchase the Due Diligence CD-ROM(s). ***Due to the high level of interest in Sale #2, it is suggested that prospective bidders make their due diligence reservations early.*** It may be necessary to limit the number of reviewers per prospective bidder and the time allotted for their review at the due diligence facility. All of the Sale #2 due diligence options and procedures will be further described in the Bidder Information Package.

BIDDER INFORMATION PACKAGE

On or about May 26, the Sale #2 Bidder Information Package will be available to qualified prospective bidders free of charge. The Bidder Information Package will contain detailed information concerning the bid process, Sale #2 terms and conditions, a Loan Information CD-ROM containing loan level data, due diligence reports and general information. To order a Bidder Information Package, it is necessary to complete a Confidentiality Agreement and Bidder Qualification Statement. They are available on the SBA website at www.sba.gov/assets/sale2.html or by calling the SBA Loan Sale Center at Merrill Lynch at (888) 590-6872. The completed Confidentiality Agreement and Bidder Qualification Statement, which are required, can be faxed to the attention of John Winchester at (212) 738-2333 or mailed to the following address:

**Merrill Lynch Mortgage Capital Inc.
4 World Financial Center, 10th Floor
New York, NY 10080**

**Attention: John Winchester, Director
SBA Loan Sale #2**

TEAMING ARRANGEMENTS

A number of prospective bidders have expressed the desire to team with others to enhance their capabilities to address such issues as capital resources, asset management and loan servicing. To accommodate this interest in teaming, Merrill Lynch/Cushman & Wakefield will maintain and make available to interested persons a list of prospective bidders or contractors wishing to undertake teaming arrangements. If you wish to include your name on this list, please contact the SBA Loan Sale Center at Merrill Lynch as directed below. The list will be distributed periodically to all prospective bidders on the list.

FURTHER INFORMATION

For further information concerning Sale #2, please visit the SBA Asset Sale website at www.sba.gov/assets/sale2.html. The website provides information about current and past SBA sales, general information about the SBA, and answers to frequently asked questions. If you have any questions concerning Sale #2, please contact the SBA Loan Sale Center at Merrill Lynch as directed below.

SBA LOAN SALE CENTER AT MERRILL LYNCH

Toll Free Number (888) 590-6872
Facsimile Number (212) 738-2333
E-mail Address sbaloansale2@exchange.ml.com

DISCLAIMER

Neither the SBA, Merrill Lynch Mortgage Capital Inc. ("Merrill Lynch"), Cushman & Wakefield, Whitestone Capital Group, Inc., nor METEC Asset Management, LC nor any of their respective contractors, subcontractors, affiliates, directors, officers, employees, advisors or agents, make any representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this announcement or made available to prospective bidders in connection with Sale #2 and no legal liability with respect thereto is assumed or may be implied. Merrill Lynch and Cushman & Wakefield are acting as transaction financial advisors to the SBA and have not audited or independently verified, and do not endorse, any portion of the financial information contained in this announcement or made available to prospective bidders in connection with Sale #2. ***No person has been authorized to make any written or oral representation as to the accuracy or completeness of the information contained or the materials referred to in this announcement and, if any representation or warranty is given or made, it must not be relied upon.*** The purchase of loans involves risks and prospective bidders should, along with their advisors, undertake any investigation necessary to understand and evaluate the risks associated with such purchase. Except as otherwise explicitly stated in the Loan Sale Agreement, the loans are being sold "AS IS," "WHERE IS," "WITH ALL FAULTS" and without any recourse whatsoever.

This announcement is not an offer to sell or a solicitation for an offer to buy loans.

